



Quarterly Economic Update

August 13, 2008



MACROECONOMIC COMMENTARY

Monetary Policy

By Lance Lachney

At the time of our last gathering, Chairman Ben Bernanke and the Federal Reserve had just lowered the short-term lending rate to 2.00% at the Federal Open Market Committee (FOMC) meeting. The minutes from the meeting reflected concerns about inflation that resulted in two dissenting votes cast by Dallas Fed President Richard Fisher and Philadelphia Fed President Charles Plosser. With the expectations that policy makers would be on hold for the foreseeable future, treasury yields began to rise dramatically. This assumption also led a flattening in the government yield curve. During this time, oil and other commodities seemed to touch new highs on a daily basis. As a result, 10yr breakevens within the TIPS (inflation-protected securities) market surpassed 250 basis points. However, the Retirement Systems was reluctant to believe that the Fed would reverse course abruptly and begin to raise rates in order to combat inflation. The reasoning for this train of thought was the continuing deterioration in housing, coupled with the belief of an inevitable consumer slowdown.

Throughout the month of June, economic activity, buoyed by the fiscal stimulus package, met or exceeded expectations, while oil continued its march towards \$150/barrel. At this time, the futures market had priced in three rate hikes by year-end. The euphoria reached such heights that the Fed itself announced that “although downside risks to growth remain, they appear to have diminished somewhat” at the June 25 meeting. This, of course, seemed to be in direct conflict with the fact that the solvency of Fannie Mae and Freddie Mac had been called into question. The notion that a government-sponsored entity (GSE) could possibly fail was squashed quickly as Treasury Secretary Hank Paulson stepped in and proclaimed that the federal government would support the agencies in their current form. While preventing what would be one of the largest calamities in financial history, it seems that FNM and FRE will continue to conserve capital by tightening standards and shrinking their balance sheets. This is not a promising sign for housing.

During the month of July, investors witnessed a significant change in sentiment. Commodities, specifically the price of oil, has fallen approximately 15% from its highs. The CRB (commodities index) fell 13% in July, which was the worst showing in almost three decades. This movement is likely in response to the slowing within the global economy. Developed economies, such as Europe and Japan are on the cusp of recession. In fact, recent data suggests that Euro retail sales are plummeting. And while emerging market economies continue to post positive readings, there is no doubt that the slowdown is underway. Since energy plays such an important role in establishing inflation expectations, TIPS breakevens have also fallen 25bps from its highs. Another point of concern is that the Federal Reserve has acknowledged that “labor markets have softened further” with the unemployment rate rising to a four-and-a-half year high of 5.7%.

In a move that reinforced the inability of markets to function properly, the Federal Reserve extended its emergency lending facility to investment banks. The Primary Dealer Credit Facility, as well as the Term Securities Lending Facility, will now be available through January. The market was not exactly blind-sided by the announcement as Chairman Bernanke has repeatedly stated that the Fed is “strongly committed” to financial stability. Remember that these financing arrangements essentially provide liquidity to primary dealers that is collateralized by a broad range of securities.

The language of the August 5 FOMC statement should come as no surprise. The Fed left the reference of “downside risks to growth remain” from the June statement, however, it deleted the section that stated that “they appear to have diminished somewhat.” They also slightly tweaked the rhetoric about economic activity to “expanded in the second quarter” from “continues to expand.” In theory, it is not a big deal. However, to investors and their inquisitive nature, the change could construe that economic growth has come to a halt. Regardless, the statement concludes that there are more growth risks than those observed at the June meeting. There was only one dissenting vote, which came from Dallas Fed President Richard Fisher, the resident hawk, who has now gone against the grain at five straight meetings.

Currently, there is roughly a 60% chance of a rate hike by year-end. This is in stark contrast to the several increases that were expected a month or so ago. The RSA still believes that the Federal Reserve is on hold for some time to come and its next move is as likely to be an ease as it is a hike. The fact is that inflation expectations did become elevated as a result of rising commodity prices. However, wage pressures have yet to surface, which ultimately lead to sustained inflation. The current weakness in commodities has given capital markets a sigh of relief. Real GDP for the second quarter was reported at 1.9%, below consensus despite the added benefit of the fiscal stimulus package. Much of this gain was due to the contribution of the export sector that may not help as much on a going-forward basis as Canada, Europe, and Japan continue to slow. After revisions, it is now clear that the fourth quarter of 2007 was actually negative 0.2%. There is no comfort coming from the consumer either as auto sales have sunk to multi-year lows and credit card companies are experiencing little to no growth.

Unsold housing inventory currently stands around a year-and-a-half worth's of supply, while mortgage rates are higher now than they were when the Fed began this easing cycle. At this point, writedowns at financial institutions are reaching half a trillion dollars. While the Fed has lowered the overnight rate by 325bps during this cycle, there has been little beneficial effect on the credit market. The RSA believes that an extension of credit by the banks will be vital to any economic recovery. That being the case, we are indifferent on the future path of interest rates. However, the Retirement Systems will acknowledge the concerted efforts made by the Treasury Department (GSE backstop), Congress (FHA bill), and the Securities Exchange Commission (forbidding certain short selling) in helping the Federal Reserve deal with the current environment. Our best guess is that the Federal Reserve is on hold throughout the year and the first quarter of 2009. We believe that the global slowdown, coupled with the easing of commodity prices, a reluctant consumer, and the inability to extend credit will keep policymakers on the sidelines for some time.

Fiscal Policy

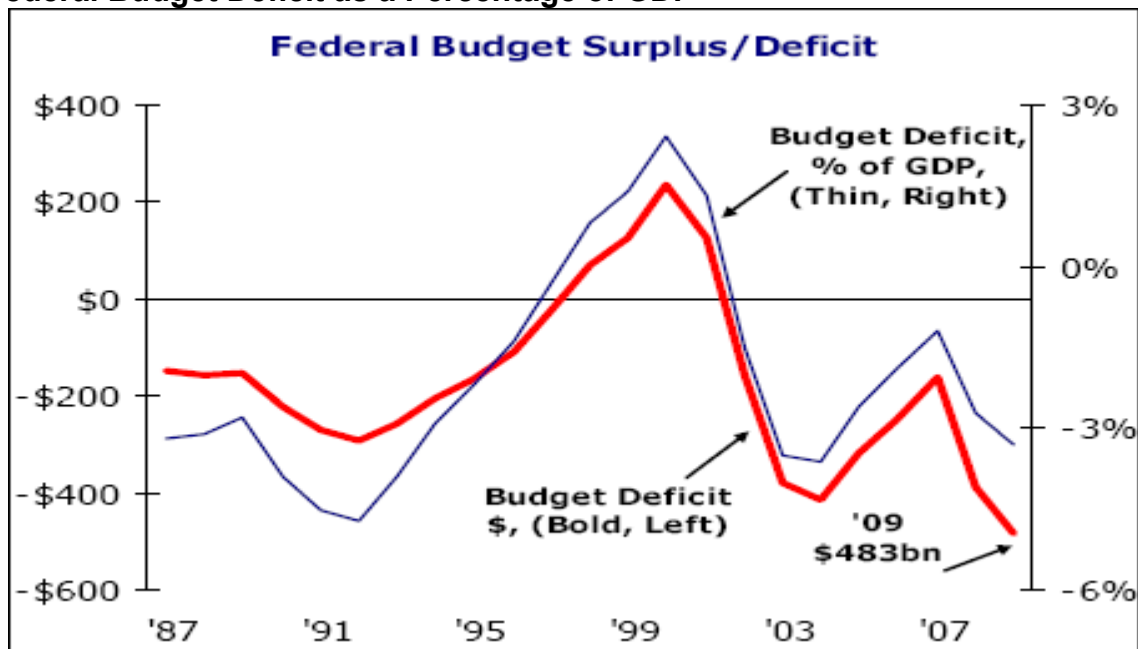
By Adam Rogers

In late July, the Bush administration released its budget projections for the upcoming year. The forecast shows a wide deterioration in the nation's fiscal position calling for a \$483 billion deficit in 2009. This may actually end higher should growth continue to decline. This certainly complicates the debate between Barack Obama and John McCain over how to strengthen the economy while not worsening the nation's finances. There is a growing consensus building around the idea that the next president will need to stimulate the economy immediately upon taking office. We will spend some time on their plans further down the road.

The budget office also lowered its forecast for economic growth this year and next year, and predicted that unemployment would rise. Gross domestic product is expected to increase by 1.6% this year, according to the budget office, down from the February prediction of 2.7%. GDP growth next year is expected to be 2.2%, down from prior estimates of 3%.

While the 2009 deficit would be a record in nominal terms, and will no doubt cause a fair amount of hand-wringing among pundits, it is still within the range of much of the 1980s and 1990s when measured as a percentage of GDP. By that measurement, the 2009 deficit would be 3.3% of the GDP. Fiscal 2008's \$389 billion deficit accounts for 2.7% of GDP.

Federal Budget Deficit as a Percentage of GDP



Source: Strategas Research Partners

The Congressional Budget Office released its latest analysis on July 7. The following is an excerpt from this report. We will take a quick look at this data before looking at our candidates long term budget plans.

BUDGET TOTALS THROUGH JUNE

(Billions of dollars)

	Actual FY2007	Preliminary FY2008	Estimated Change
Receipts	1,945	1,929	-16
Outlays	2,066	2,198	132
Deficit (-)	-121	-268	-148

Sources: Department of the Treasury; CBO.

CBO estimates that the federal government incurred a deficit of \$268 billion for the first three quarters of fiscal year 2008, more than twice the deficit recorded for the same period last year.

Total receipts are about \$16 billion (or almost 1 percent) lower for the fiscal year through June than those in the first nine months of fiscal year 2007. Excluding the effects of the tax rebates, total receipts rose by about \$35 billion (or roughly 2 percent).

Adjusted for shifts in the timing of certain payments, spending through June was about 7% higher than in the first nine months of 2007, CBO estimates. In the absence of rebate payments, which added an estimated \$28 billion to the outlay total through June, spending would have increased by about 6%. Defense outlays were up by 10% over this period; non-defense spending, excluding rebate payments, rose by 5% on an adjusted basis.

OUTLAYS THROUGH JUNE

(Billions of dollars)

Major Category	Actual FY2007	Preliminary FY2008	Percentage Change	
			Actual	Adjusted ^a
Defense—Military	397	438	10.3	10.3
Social Security				
Benefits	430	453	5.3	5.3
Medicare ^b	290	285	-1.8	3.4
Medicaid	144	152	5.6	5.6
Other Programs				
and Activities	<u>620</u>	<u>679</u>	9.5	9.6
Subtotal	1,882	2,007	6.6	7.5
Net Interest on the				
Public Debt	<u>185</u>	<u>191</u>	3.5	3.5
Total	2,066	2,198	6.4	7.2

Sources: Department of the Treasury; CBO.

a. Excludes the effects of payments that were shifted because of weekends or holidays.

b. Medicare outlays are net of proprietary receipts.

With November fast approaching, presidential candidates John McCain and Barack Obama are setting up their post-convention platforms. While Obama has laid out many spending initiatives already, many of which appear to require an increase in taxes, McCain has been more conservative, not yet laying out a definitive spending platform. With that in mind, we will look at Obama's prospective income statement first.

Obama Presidential Income Statement

Tax Plans (\$BN Per Year)

Raise Top Two Income Tax Rates, Cap Gains Dividends, PEP, Freeze Estate Tax	\$80.00
Reduce Troops to 30k in Iraq/Afghanistan	\$40.00
Energy Tax Increase	\$16.00
Per Pack Cigarette Tax to \$1.00	
Tax on Sulfur Dioxide/Nitrogen Emissions	\$4.70
End Corporate Profit Deferral	\$3.50
Cap & Trade (Net Impact)	\$2.80
Reinstate Superfund Tax	\$1.80
LIFO/FIFO	<u>\$1.30</u>
Total:	\$157.70

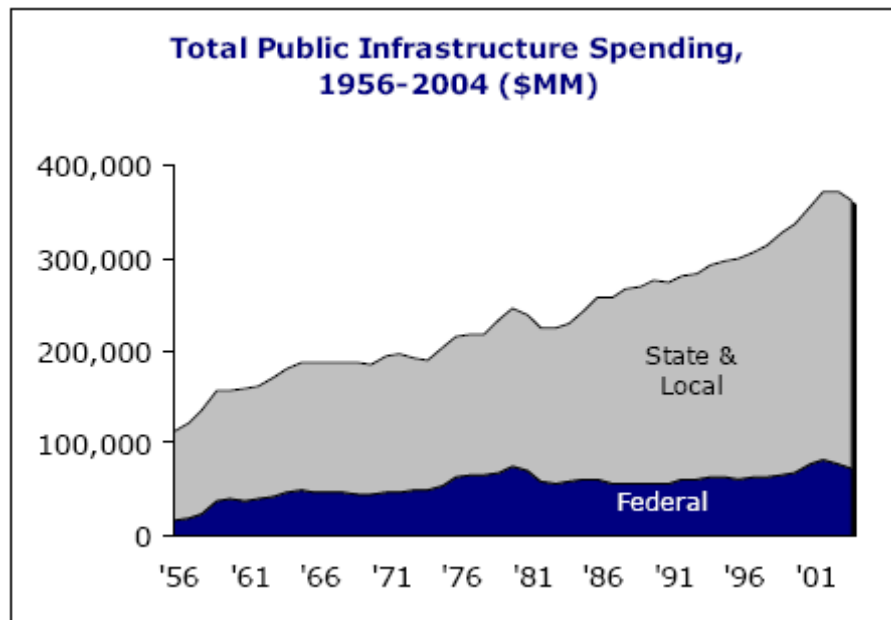
Spending Plans (\$BN Per Year)

Health Care	\$110.00
Education	\$32.00
Tax cut for middle class and seniors	\$80.00
Tax incentives for savings	\$13.00
Expanded earned income tax credit	\$6.00
Increased research for health and science	\$12.00
Veterans and Military	\$15.00
Foreign aid / fighting global disease	\$25.00
Creating Jobs	\$3.50
Infrastructure and mass transit	\$6.00
Assorted other	<u>\$30.30</u>
Total:	<u>\$332.80</u>

Additional Deficit **(\$175.10)**

Remember that this additional deficit will be tacked on to a possible \$500 billion deficit that he would inherit.

When evaluating these campaign promises we should also keep in mind that Obama's platform is strikingly similar to Bill Clinton's '92 campaign of a middle class tax cut, healthcare reform, infrastructure development, and a tax increase on Americans earning over \$200k. In the end there was no infrastructure development or middle class tax cut in the Clinton Administration. There was a tax increase in wealthy Americans in the form of higher individual and payroll taxes as well as corporate and gas tax increases and a tax increase on Social Security benefits. This is not to say that it will not be different this time, but campaign promises are rarely fully fulfilled and that should be taken into account when evaluating the two candidates budget proposals.



Source: Strategas Research Partners

The spending side of the McCain budget proposal thus far is not as established as the tax side. Here are a few highlights from the McCain campaign:

1. In FY 2010, extend the 2001/2003 tax legislation.
2. Index and repeal the alternative minimum tax.
3. Double the dependent exemption. The \$3500 exemption will increase to \$4000 in 2010 and \$500 per year after that until finally reaching \$7000 in 2016. Families earning \$50k or less will see their exemption doubled immediately.
4. Corporate rate reduction. In FY 2010 immediately lower the corporate tax rate from the current 35% to 30%. The rate is then reduced to 28% in FY 2012, 26% in FY 2014, and 25% in FY2015 and thereafter.
5. Repeal LIFO inventory accounting

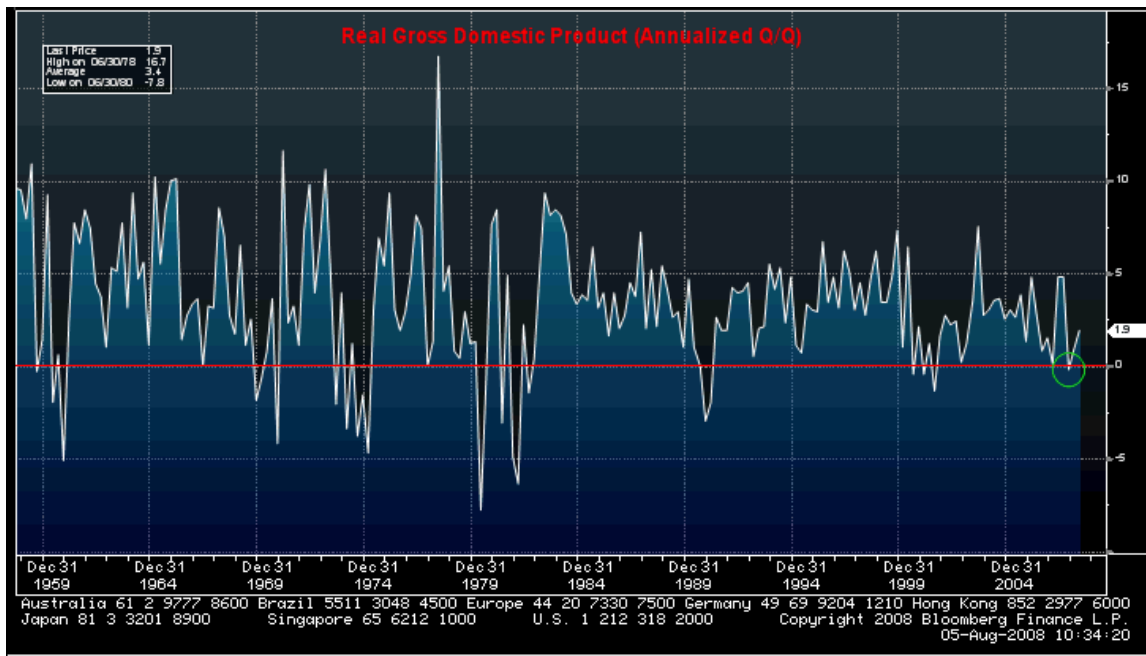
McCain has not been as vocal as Obama on the budget recently, most likely waiting until after the convention to unveil more specific plans for both sides of the ledger.

Economic Outlook

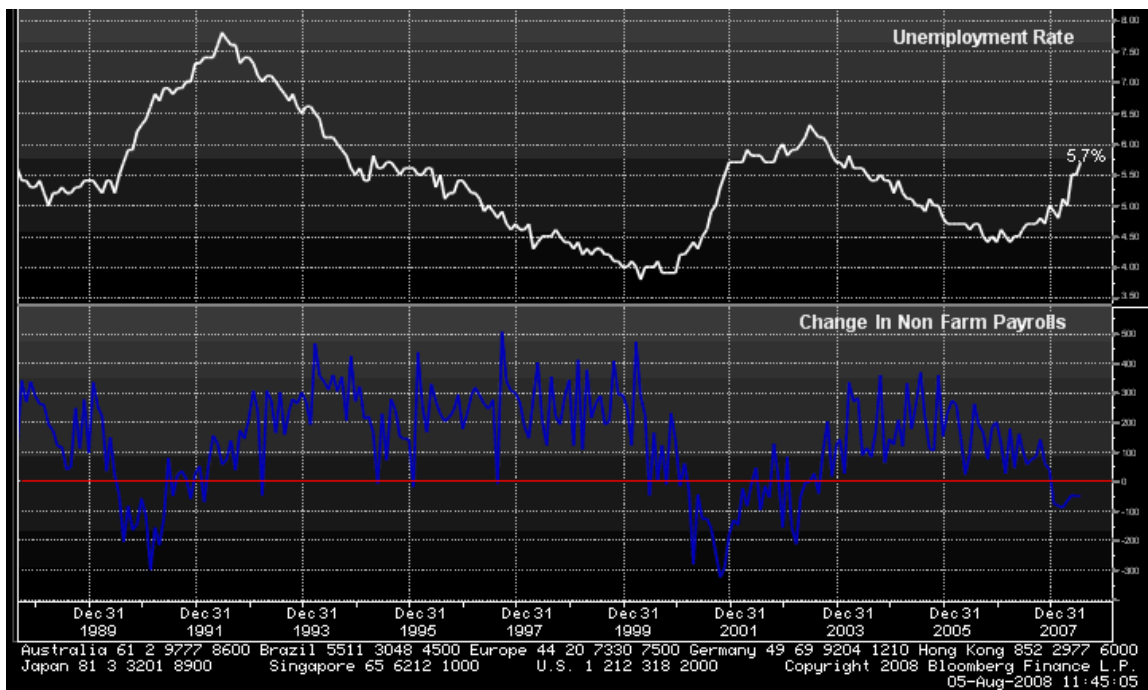
By Bobby Long

We seem to have made it through the first half of 2008 with the economy struggling but holding firmer than some have thought. The question remains, are we going to make it through this downturn with some minor pain or is the worst yet to come? Many in the economic community have called for a second half 2008 recovery. While consumers have continued to spend with the assistance of government rebate checks, there are still many challenges they continue to face that should dampen consumers' ability to spend on discretionary items and make a recovery in the latter part of 2008 unlikely. All eyes are on the consumer, who is needed to keep this economy moving forward.

The Bureau of Economic Analysis reported real Gross Domestic Product of 1.9% for the second quarter of 2008. Second quarter GDP growth was supported by a strong increase in exports of 9.2% accompanied by a decrease in imports of 6.6%. The federal government continued to spend, providing growth of 6.7% over the prior quarter with strong defense and non defense expenditures. Personal consumption expenditures increased 1.5% with positive contributions from nondurable goods and services; however, spending on durable goods declined 3.0%, marking the second negative quarter in a row. Gross private domestic investment declined 14.8% due in large part to a 15.6% decline in residential investment which has experienced ten consecutive quarters of negative growth. Along with the second quarter GDP release, the BEA revised first quarter GDP down from 1.0% to 0.9% and fourth quarter 2007 GDP down from 0.6% to -0.2%. This marks the first quarter we have seen the economy contract since September 2001.

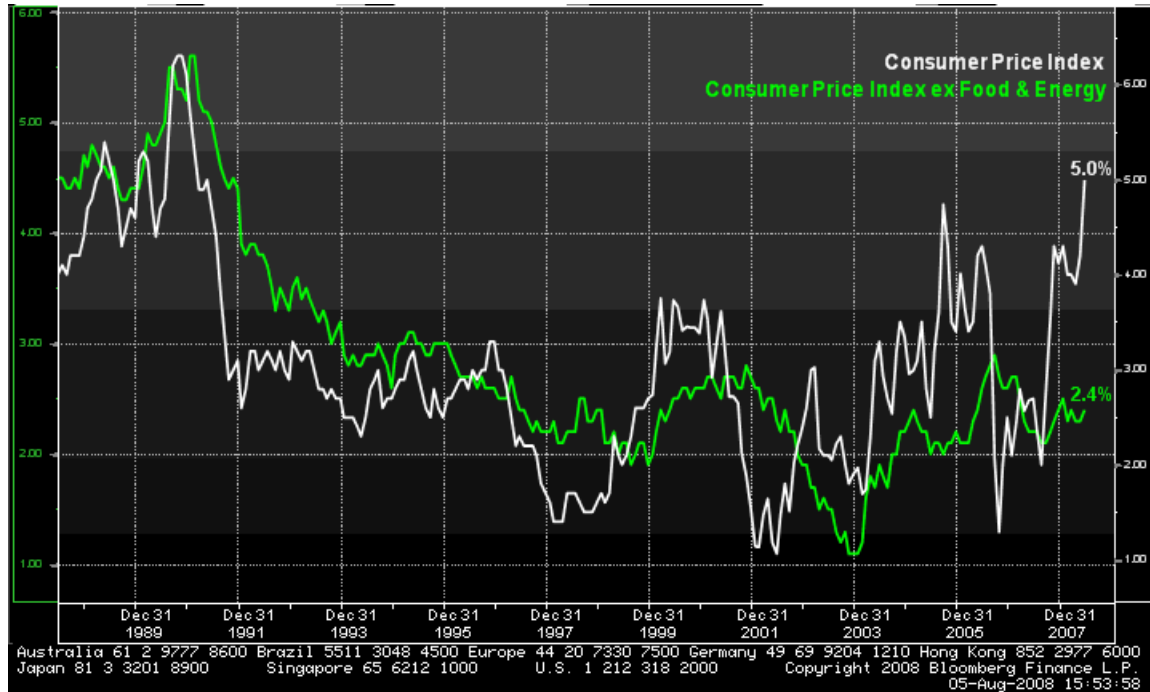


The Bureau of Labor Statistics recently reported that the economy lost jobs for the seventh month in a row with non-farm payrolls losing 463,000 jobs in 2008. For those who are still employed the average weekly hours worked indicates they are working less, recently falling to 33.6 hours per week which is the lowest since November 2004. The Challenger US Announced Job Cuts have echoed the payroll numbers showing the transportation, financial, retail, automotive, and entertainment industries leading the way with the most recent job reduction announcements. Challenger's data shows 579,260 cuts year to date through July, up 33% from 2007. The unemployment rate rose sharply during the second quarter and was recently reported at 5.7%. The pickup in unemployment and job losses is troubling. It seems job losses are spreading outside the more recognized trouble areas of financials and housing, which are rippling throughout the economy and further weakening the consumer.

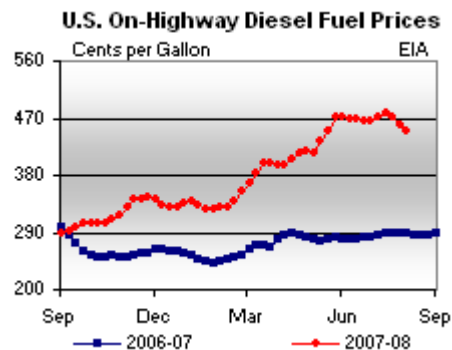
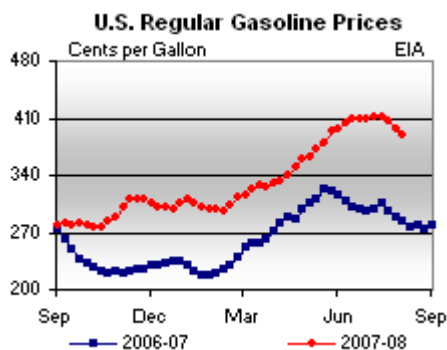


Inflation continues to demand attention, as it has been driven higher primarily due to elevated energy prices. While core inflation excluding food and energy remain at comfortable levels due to some deflationary trends that continue in certain areas, the higher energy prices are driving up the cost of gasoline and food, two very important items to most consumers. The consumer price index increased over the second quarter to 5.0% as of the end of June. CPI excluding food and energy remained fairly level during the quarter at 2.4% as of the end of June. Energy increased 4.4% in May and 6.6% in June. Food increased 0.9% in April, 0.3% in May and 0.8% in June. Consumers and businesses are feeling the pressures of higher food and gasoline costs. Elevated energy prices are pushing their way through the economy, affecting goods and services across the spectrum. Some of this is directly hitting consumers in the pocket book through food and gasoline costs. Businesses are taking the hit on their margins as the cost of their products and services has increased from transportation and input costs. The

producer price index surged 6.5%, 7.2%, and 9.2% over the prior year for the months of April, May, and June. Businesses are getting squeezed because they simply cannot raise prices on an already weak consumer.

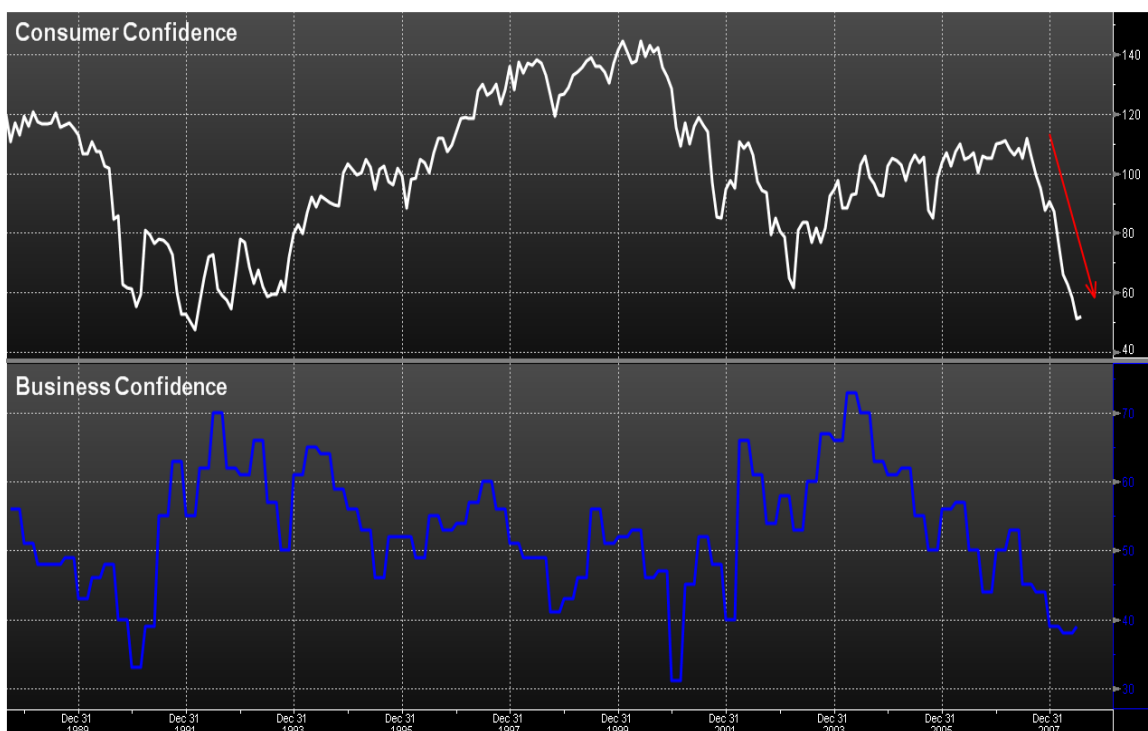


The price of gasoline and diesel continued to increase over the second quarter, with gasoline climbing over the \$4.00 mark. The charts below show the large increase in fuel prices over the prior year's levels. Fuel prices appear to be finally creating some demand destruction; however consumers can do little in the short term to change their consumption habits. A decline in energy prices would provide some needed relief that would greatly benefit the consumer and the economy. It is simply too early to tell whether this relief is temporary and seasonal or portend a greater trend. Nevertheless, prices are likely to remain historically elevated from prior years.



Source: Energy Information Administration

Rising food and energy prices continue to be at the forefront of consumers' concerns as they review their monthly budgets. Job markets remain tight and personal incomes are not growing. Core inflation does seem to remain in check with many deflationary trends continuing in certain areas. However, most consumers are much more focused on the rising costs to feed their families and the prices they pay to get to work and shuffle kids around to school and other activities. Home prices continue to decline in many areas of the country, leaving most consumers watching the value of their greatest asset decline. The S&P/Case-Shiller Composite – 20 City Home Price Index has shown year over year declines each month from January through May of -10.66%, -12.69%, -14.33%, -15.22%, and -15.78%, respectively. Debt levels remain high, with many consumers struggling to make monthly interest payments on mortgages and credit cards. All of this has led to a significant decline in consumer confidence as noted below.



Source: Conference Board, Bloomberg Finance L.P.

Many businesses, with the exception of financial companies and homebuilders, have remained fairly healthy with low debt, high cash levels, and low inventories. However, margin pressures will likely continue as noted above and revenues will continue to slow with the economy. Financial companies continue to face credit problems as well as capital and liquidity issues that will discourage lending and growth until these issues are resolved.

The Federal Open Market Committee recently stated in their most recent release, "Economic activity expanded in the second quarter . . . However, labor markets have softened further and financial markets remain under considerable stress. Tight credit conditions, the ongoing housing contraction, and elevated energy prices are likely to weigh on economic growth over the next few quarters."

With businesses in pretty good shape overall given the economic environment, the focus remains on the consumer. The cheap dollar continues to support exports and promote growth, although it remains a double edge sword. American consumers have proved to be resilient over the years by continuing to spend along side rising debt levels and declining savings rates. Time and time again many have said that consumers cannot continue at these levels and they have been proven wrong each time. At some point, they will reach a limit. The government has provided record stimulus to spur the lending environment and provide relief to consumers. While the question remains unanswered if things will get better or worse from here, the challenges are fairly clear and it would be overly optimistic to believe a recovery is right around the corner. It will likely take some time to work through the current problems.

RSA PORTFOLIO STRATEGY

Interest Rates and Fixed Income Strategy

By Julie Barranco

The second quarter of 2008 was another volatile one for the bond market. The quarter started off on a strong note as investors, relieved by the Fed's response to the Bear Stearns situation, began to return to the market, driving a strong recovery across fixed income spread products in April and May. Treasury yields were rising and the curve was flattening, reflecting the decline in risk aversion and greater appetite for spread product. After three consecutive months of underperformance in spread product, most notably in the investment grade credit sector, sentiment had changed and these sectors were delivering positive excess returns. Issuers took advantage of this improved investor sentiment; April and May both saw record levels of issuance within the investment grade corporate sector.

As we entered June, sentiment began to sour again, which brought this relief rally in spreads to an end. Fears of ongoing pressure in the finance sector resurfaced and this, coupled with the deteriorating economic outlook, undermined confidence. On the inflation front, the continued increases in crude oil prices also affected the outlook as oil rose 12% during the month of June, bringing the year-to-date price increase to 50%. The Federal Reserve kept the Fed Funds Rate unchanged at 2.0% during the June meeting and stated that downside risks to growth had receded somewhat while inflation risks had increased. Treasury yields were volatile over the course of the month with the curve ultimately flattening. Spreads across all sectors widened, most notably within the credit sector. With risk aversion returning, along with limited liquidity, new issue supply decreased significantly from the levels of April and May.

So, the first six months of 2008 was one for the record books. In the investment grade universe, the first quarter ranked as the single worst period for performance on record, which we discussed at our last meeting. A strong relief rally led off the second quarter in response to the Bear Stearns bailout, but faded in June as fears of pressure in the finance sector returned and economic data weakened. The table below depicts the monthly excess return within the high grade credit sectors:

High Grade Index Excess Return

	Jan-08	Feb-08	Mar-08	Apr-08	May-08	Jun-08	1Q08	2Q08
U.S. Corporate Master	(1.63)	(1.10)	(2.12)	2.56	0.51	(1.32)	(4.93)	1.75
Aggregate Finance	(1.31)	(1.29)	(2.89)	2.81	0.43	(1.84)	(5.59)	1.41
Aggregate Industrials	(1.96)	(1.02)	(1.51)	2.43	0.58	(0.95)	(4.56)	2.06
Aggregate Utilities	(1.24)	(0.50)	(1.63)	1.94	0.46	(0.61)	(3.43)	1.79

Source: ML Indices

The risk aversion theme continued into July, both in the equity and fixed income markets. Economic issues including further job losses, inflationary food and energy

price increases, a weak housing market and a slowdown in consumer spending all continued to threaten the fundamental strength of the market. Treasury yields declined in response to the continued weak outlook as spreads continued to widen across most sectors. That said, the bigger news during July involved Fannie Mae and Freddie Mac and the plan to safeguard their viability and liquidity. Responding to the continued turmoil in the mortgage sector, the Federal Reserve and the Treasury announced a plan to support the government-sponsored enterprises (GSE). First, as a liquidity backstop, the plan includes an 18-month temporary increase in the Treasury's existing line of credit for an unspecified amount. Second, to ensure the GSE's have sufficient capital, the plan gives the Treasury an 18-month temporary authority to purchase equity in either of the two entities. However, the Treasury has emphasized that this step would only be used if absolutely necessary. Third, to help protect the financial system from future systemic risk, the plan strengthens the GSE regulatory reform legislation and allows the Federal Reserve to access information and perform a consultative role in the regulatory process for setting capital requirements.

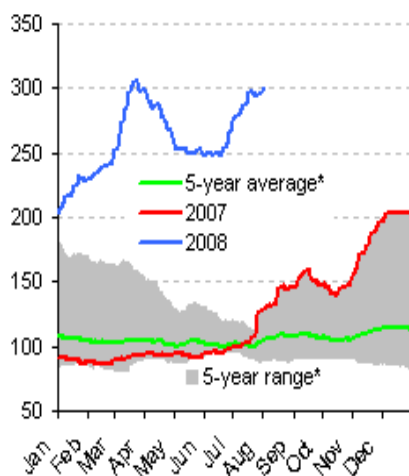
Secretary of the Treasury Henry Paulson emphasized the central role that Fannie Mae and Freddie Mac play in the housing finance system and the desire for this to continue as we work through the current housing market correction. Additionally, the debt and other securities issued by the GSE's are held by financial institutions around the world and continued confidence in them is important to market stability. This plan, presented as a portion of current housing recovery package, was passed by the House and Senate and then signed by the President.

With the announcement of this plan, spreads across all sectors, most notably agency unsecured debt and mortgages backed securities, tightened significantly. While the Treasury emphasized that they supported the current shareholder owned structure of the GSE's and did not intend to "take over" these entities, the somewhat implicit government guarantee of the GSE debt now appeared more explicit. Treasuries sold off with this news as talk of a government bailout led to worries about further growth of the federal government's debt load as well as the possibility of losing the AAA rating. This trend was short-lived as the Treasury Department continued to speak about support of the GSE's in the current form and investors seemed to doubt if this plan would really help to solve the current issues. Concern about the outlook for Fannie and Freddie's lower tier securities added to pressure in the sector as well. By early August, agency debentures and mortgage debt had widened again and given back a good portion of the previous two weeks' gains while Treasury yields once again began to decline.

Since the end of May Treasury yields across the curve have traded within a fairly wide band – more than 50 basis points – yet are currently at roughly the same levels of May month end. Agency debenture and MBS spreads are tighter than the peak widths of March; however, they are still notably higher than where they started the year. Corporate spreads have generally been moving wider as well, particularly within the bank and finance sector.

The charts below highlight spread movements within the credit sector as a whole and the financial sector, both year-to date and versus their 5-year average:

US Corporate Master Index



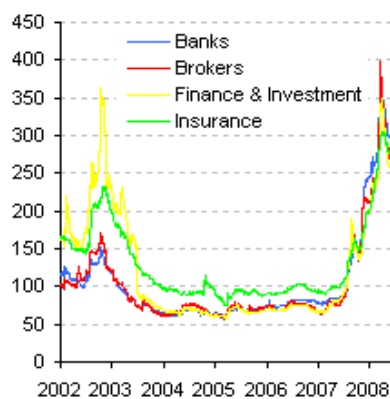
* 2003 - 2007

Source: ML Indices (COA0), CreditSights

	Aug 1 2008	Change (bp)		
		Week	Month- to-date	Year- to-date
High Grade	300	4	2	97
Financials	363	5	2	141
Non-Financials	255	5	3	65

Source: CreditSights

Financials Services



Source: ML Indices (COP0, CFBR, CFFI, CFIS, CIRE) CreditSights

	Aug 1 2008	Change (bp)		
		Week	Month- to-date	Year- to-date
Banks	390	4	-1	146
Brokers	353	6	4	142
Finance & Investment	332	7	4	130
Insurance	335	5	3	134
REITs	424	11	5	166

This chart depicts the spread movement of 5 year Fannie Mae unsecured debt since the beginning of this year:



Source: Bloomberg

With these issues at hand and limited liquidity in some sectors, purchase and sale activity has been somewhat muted. We have continued to add selectively to

corporates by participating in some of the primary market issues. Issues added were large, higher quality names in the consumer goods and retail sectors. Most of our purchases have been in the short to intermediate part of the curve so as to keep duration neutral within the corporate sector.

We were not particularly active in the agency portfolio during the quarter. With the negative headlines surrounding Fannie Mae and Freddie Mac and the resulting volatility in spreads within this sector, we did not feel it prudent to increase our weighting here. With the passage of the housing bill and the additional support that will be provided to the GSE's, we feel that conditions should improve in this sector in the coming months and we may look to add to our holdings then.

We have continued to selectively add some agency mortgage backed security exposure to the portfolio. This sector underperformed all other investment grade sectors by a wide margin during the first quarter of the year in the wake of liquidity problems within the financial sector and increased volatility in the marketplace. Spreads in this sector hit 20 year wides in Mid-March and have been yielding significantly more than agency notes; in recent weeks, these wides have been tested yet again. We think there is definite value in some of the more seasoned issues with loans that originated before the peak of the housing bubble; recently issued pools with new collateral can be attractive as well due to the higher credit standards now being employed. As we can find these types of issues that are geographically diversified and have a good payment history, we will look to add to this sector as we feel spreads will tighten back in and this sector will perform well as the financial sector works to normalize.

Lastly, we added to our Treasury holdings by purchasing 4-year notes. After a large sell-off in June, particularly on the short end of the curve, yields looked more attractive than they had in the several weeks prior. If the Fed is done easing short term rates, as more investors are starting to believe, it is likely that future moves higher will come at a slower pace than what the market is currently pricing in. Recent economic data, combined with an adverse wealth effect from falling home prices should dampen consumer spending through the remainder of the year. This makes yields on the front end of the curve attractive in the near term.

Domestic Equity Strategy

By Marc Green

As we wade through 2008, things continue to be difficult in the equity markets. The market has become meticulous in splitting up every detail seven ways, and then overreacting either positively or negatively. One could make the argument that this is the sort of market action you need to start finding a bottom. It is obvious to most anyone that has a TV set of the obstacles and pitfalls lying ahead for the markets. Housing prices continue to fall, inflation is not under control, unemployment is rising, and the list goes on. We agree that these are formidable headwinds, but also feel that maybe we can see the light at the end of the tunnel, though it is faint. Since peaking out last October, the market as measured by the S & P 500 has officially entered a bear market technically speaking. The low in mid July was over 22% below the peak. The following chart depicts the S&P 500 over the past 12 months.

Chart 1



As pointed out above, there is definitely a lack of stability in equity markets. Sentiment polls are low at nearly every level of investor; from retail to strategists to investment advisors. The Investors Intelligence poll, a survey of financial newsletter writers is at its lowest point of the past 13 years. Coincidentally, the last time it was this negative, the market went on to gain over 100 % in the next five years. Obviously, we are not predicting that type of outcome, but merely pointing out that oftentimes it is darkest before the dawn.

Besides our sentiment, there are several possible catalysts to move the market. Energy prices, which have been a tax on discretionary income of consumers, have come off the boiler. After having a parabolic move upward the first seven months of the year, crude prices have backed off 20% from its high. There is a debate as to what caused this, a change in supply or demand, and the correct answer is probably both. The spike in energy prices has already caused visible changes in consumer behavior, as evidenced by the fact that you can hardly give an SUV or big truck away, miles driven is down, and bicycle sales have ramped up. At the same time, we are seeing other countries cut back on energy subsidies for consumers, which has had a noticeable impact on their consumption as well. Other commodity prices have rolled over. Gold, copper, corn, wheat, etc. have all rolled over from their highs. The following chart shows the Goldman Sachs Commodity Index over the past 12 months.

Chart 2



Lining this chart up with the S&P 500 above shows there is some correlation with a top in commodity prices and a bottom in stocks.

Another major issue has been the debacle in the financial stocks as a result of the subprime lending fiasco, securitization, and lack of risk controls. Where we are in the spectrum of this mess is hard to determine, but we are slowly but surely getting closer to the end by default. The companies are starting to take their medicine, as evidenced by Merrill Lynch two weeks ago. After announcing a few times that they have enough capital and had taken appropriate marks on securities held, they announce a firesale and equity raise at the same time. After an initial negative reaction, the stock has drifted slowly higher. The point is this, although the news is not good, it's getting less bad. We do not believe that the financial stock earnings or earnings estimates in general are going up anytime soon, but possibly the bottom in earnings on a quarter to quarter basis is coming soon. The following chart provided by ISI shows their thoughts on the progression of estimates.

Chart 3

Error! Not a valid link.

Even if the low end of estimates proves correct, the market would be trading at less than 14 times earnings.

As we have mentioned for several quarters running, corporate balance sheets are strong. Although the LBO market has all but disappeared, strategic buyouts have accelerated. To name a few: InBev for Anheuser Busch, Roche for Genentech, Verizon for Alltel, Mars for Wrigley, and it goes on and on. Per Bloombergs mergers and acquisitions page, there have been 6158 announced deals year to date. At the same time that we are seeing corporate m & a activity, public companies continue to repurchase shares. ISI estimates that over 2.6% of the S&P 500 market cap will be repurchased by companies, as shown by the chart below.

Chart 4

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Though it is hard to see why the market should do better going forward, it is usually some minor change in perception that can turn fear into hope. At this point we feel that a strong commitment to the equity markets is warranted. Maybe it is that housing prices or inventories improve, the banks quit taking charges, or that oil and other commodity prices

actually hold steady for awhile. One interesting anecdote I saw was that a perma-bear who has always beaten up the consumer for their low savings rate spun as a negative when the savings rate recently went up. The argument was that now consumers are in savings mode and won't be spending to support the economy. It seems like we cannot win for losing.

As far as recent activity, we have been holding steady on asset allocations. We have used the sell-off to up the quality of the active portfolios, as the good has sold off with the bad. Small caps have continued to outperform relative to mid and large caps, much to our surprise. We will continue to run the portfolios more heavily weighted towards large cap. As far as sectors, we have been underweight consumer discretionary and financials for several quarters, and have recently cut back on our energy weighting in the Core fund. We have also become more active in the options market as pricing has improved with the spike in volatility.

International Equity Strategy

By Steve Lambdin

The second quarter of 2008 started off on a good footing as global equity markets rebounded but fell off in June, as inflation concerns ran more prevalent around the globe, the financial sector remained in turmoil, and recessionary outlooks seem to dot the landscape. As these concerns become more real, consumer confidence continued to erode as energy prices set new records. The housing market in the U.S. and Europe continued to "meltdown" during the quarter as foreclosures increased just as inventories are near record levels. We do not see a quick fix to this problem. Businesses are struggling to maintain margins as input costs are rising much more quickly than previously thought, putting pressure on corporate earnings. The central banks continue the fight between slowing economic growth in most regions while seeing inflation picking up significantly, creating a possible "stagflation scenario" that everyone wants to avoid. During the quarter, the U.S. Dollar reversed from its deep multi-year slide and actually rose, which hurt equity returns just a bit. As we look to the back half of 2008, we see little to get excited about. While energy prices and commodity prices may come down a bit, housing remains in a tailspin, the banking crisis in the U.S. and Europe seems not to be getting better, and the consumer remains questionable going forward. We feel in this environment, equities could have a hard time performing well, even though from a valuation standpoint they look attractive.

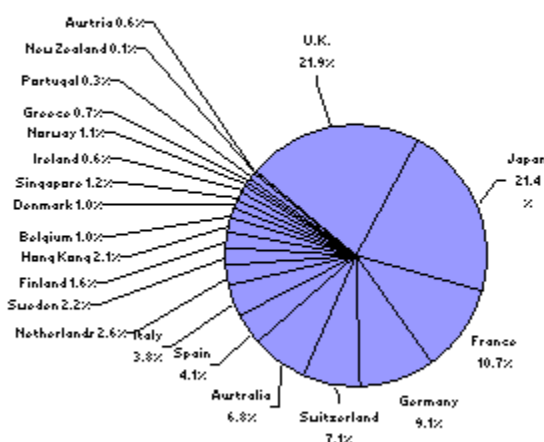
The MSCI EAFE Index (net dividend) returned -2.3% during the quarter vs. -2.7% for the S&P 500 Index. Strength in the Japanese equity market during the quarter was the main reason for this out performance. Within the MSCI EAFE Index, the Asian region outperformed the European region, as investors took advantage of the prolonged weakness seen in many Asian markets. The best performing countries were Austria (+5.1%), Australia (+4.0%), and Japan (+2.5%), while Belgium (-19.5%), Ireland (-17.7%), and Portugal (-14.1%) were the laggards during the quarter. From an economic sector standpoint, Energy, Materials, and Utilities stocks were areas of strength, while Financials and Consumer Discretionary stocks were detractors from performance. During the second quarter, the U.S. Dollar rose approximately +5.7% vs. Japanese Yen and rose very slightly vs. the Euro and the British Pound.

The table below shows the performance of each EAFE country's national indices broken down between local market return and the USD return during the second quarter of 2008.

**Return Attribution for EAFE Countries
Second Quarter 2008**

Country	Local Return	Curr Return	USD Return	EAFE Weight
United Kingdom	-0.90%	0.10%	-0.80%	21.90%
Japan	9.10%	-6.60%	2.50%	21.40%
France	-3.40%	-0.50%	-3.90%	10.70%
Germany	-1.90%	-0.50%	-2.40%	9.10%
Switzerland	-2.80%	-2.80%	-5.60%	7.10%
Australia	-1.00%	5.00%	4.00%	6.80%
Spain	-8.00%	-0.50%	-8.50%	4.10%
Italy	-4.80%	-0.50%	-5.30%	3.80%
Netherlands	-8.30%	-0.50%	-8.80%	2.60%
Sweden	-9.00%	-1.20%	-10.20%	2.20%
Hong Kong	-3.70%	-0.20%	-3.90%	2.10%
Finland	-13.30%	-0.40%	-13.70%	1.60%
Singapore	-2.30%	1.40%	-0.90%	1.20%
Norway	13.80%	-0.30%	13.50%	1.10%
Belgium	-19.00%	-0.50%	-19.50%	1.00%
Denmark	-0.40%	-0.60%	-1.00%	1.00%
Greece	-12.50%	-0.50%	-13.00%	0.70%
Ireland	-17.20%	-0.50%	-17.70%	0.60%
Austria	5.70%	-0.60%	5.10%	0.60%
Portugal	-13.60%	-0.50%	-14.10%	0.30%
New Zealand	-11.50%	2.90%	-14.40%	0.10%
EAFE	-0.90%	-1.40%	-2.30%	100.00%

EAFE Country Weights as of June 30, 2008

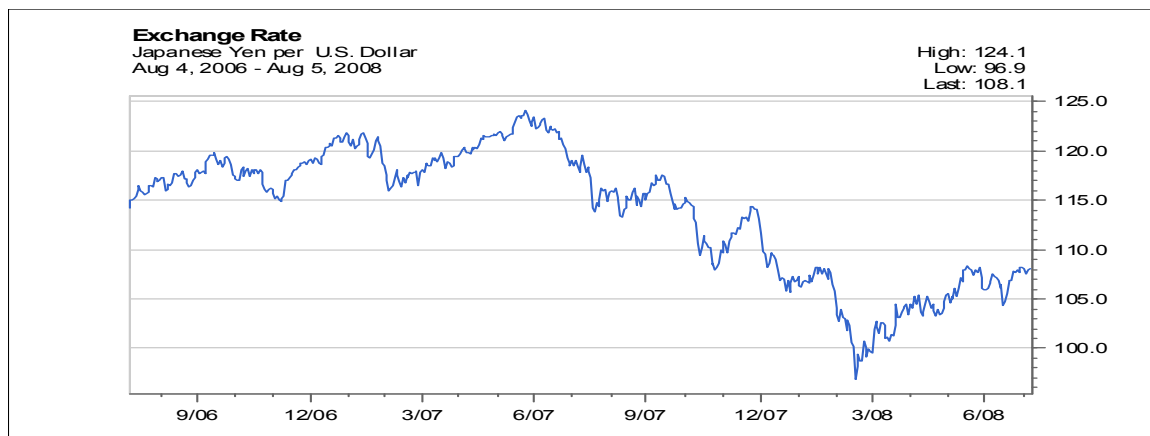


So far in the third quarter of 2008, the global equity markets remain very volatile as we remain stuck in the bear market. Growing economic concerns and rising tensions between Israel and Iran in the Middle East seem to be on the forefront of investors minds. Central banks around the globe have been busy taking various actions to stave off a financial crisis and should remain very committed to this going forward. Recent economic developments seem to be pointing toward some level of a mild recession in many developed markets. However, the duration of this remains a mystery at this point. As investors remain very skeptical toward equities, from the end of June thru early August, the MSCI EAFE Index (net dividend) and the S&P 500 Index are down approximately -5.7% and -2.3% respectively. The U.S. Dollar has continued its key reversal against other

major currencies, which has dampened returns thus far in the third quarter. At this point, investors will remain focused on weakening economic data searching for any signs of a turn in key indicators before becoming more bullish toward equities. With this in mind, we could remain in a “rough patch” over the near term in most equity markets.

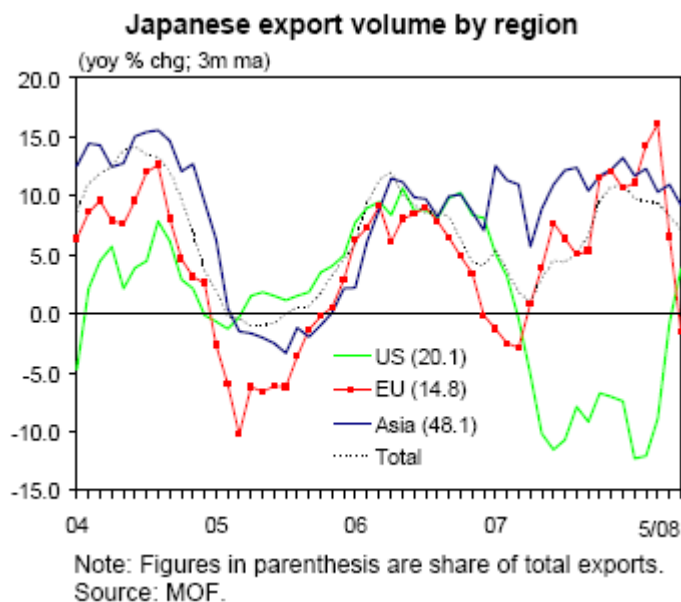
Presented below are some charts showing the movement of various currencies:



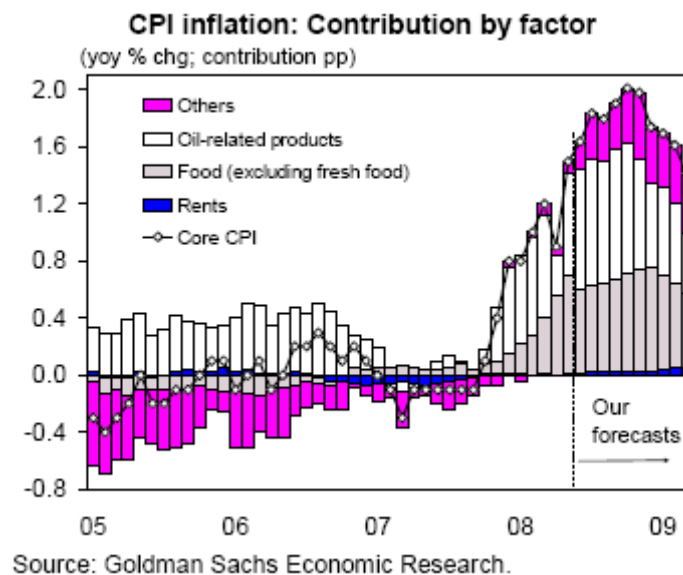


Japan Update

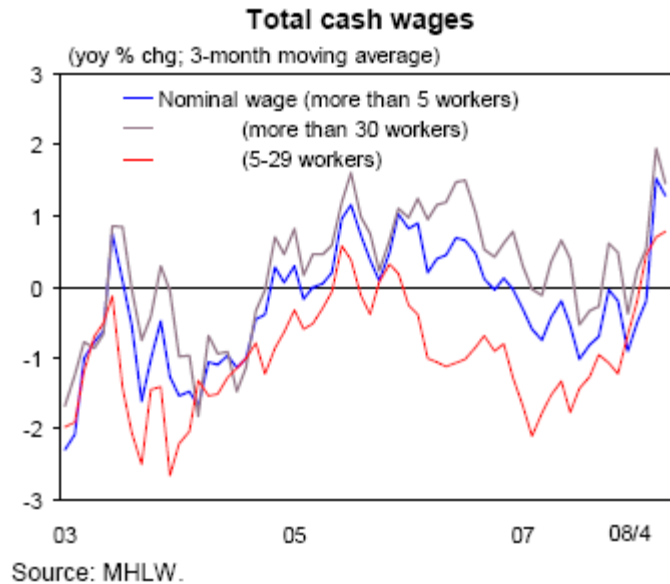
After several quarters of negative equity market returns the MSCI Japan Index finished the second quarter of 2008 with a +2.5% USD return. This return would have been larger if it was not for a negative currency return in the quarter. However, one quarter certainly does not make for a trend. Generally, business conditions continue to weaken and the forecast looks cloudy at this time. We remain concerned about Japan's export environment, as this remains key for the Japanese economy to perform well. As we embark on a more pronounced global slowdown, one has to worry about the effect on this economy, especially as the consumer has yet to rise.



While we don't have the official GDP report on Japan's second quarter growth, most analysts are forecasting the economy to post negative growth of approximately -2.3%. This is much different than the +4.0% growth in the first quarter of 2008. The slowdown in the U.S. and Europe has curbed demand for Japanese exports. As a result, industrial production is set to slowdown this summer after posting positive results in May. Toyota and Honda have both cut back production and capital spending due to the severity of the global slowdown, especially in the U.S. Higher prices for steel and aluminum and other commodity inputs are making it very difficult to hold margins at past rates. This is happening at a time when record food and fuel costs are taking its toll on the consumer. In fact, recent core consumer prices rose +1.5%, the fast pace we have seen in this region in quite some time. With this in mind, consumers have been reluctant to spend. Part of this reluctance is based on a deteriorating employment outlook. Japan's unemployment rate recently climbed to 4.1%, the highest level in several years. In addition, the jobs-to-applicant ratio remains well below 100, which indicates a very difficult hiring climate

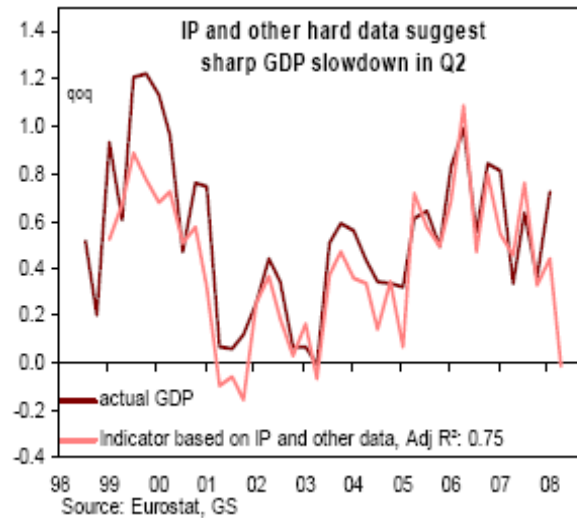


At this juncture, we certainly see an economy that is weaker than we forecasted a few months ago. GDP growth may only come in around +1% to 1.4% for Japan's current fiscal year. We just see too many signs of a slowing economy relative to few signs of a strengthening one. While emerging markets are expected to continue to be a source of strength, even growth expectations are slowing down here as well. Couple this with a weakening U.S. and European economies, and one can see that risks to the economic outlook lie to the downside. We see the equity market in Japan staying very range bound over the near term, until we see positive economic signs develop.



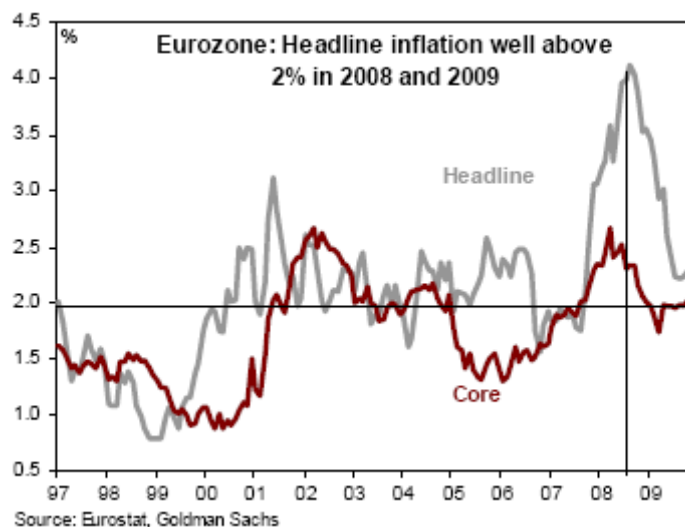
Euroland Update

Following on the heels of a weak first quarter of 2008, Euroland equity markets did not recover and finished down in the second quarter. The MSCI Europe region finished with a -4.1% USD return for the quarter. Concerns that the European Central Bank (ECB) and the Bank of England (BOE) would continue to raise interest rates to curtail inflation concerns while depressing economic growth spooked most investors. Strength in the German economy was overshadowed by fresh recession concerns in France, Spain, and Italy. Many of the equity markets in the smaller countries in the MSCI European Index experienced significant pullbacks in the second quarter as business conditions in these countries are deteriorating rapidly. Also, the financial sector remains highly volatile as credit market conditions continue to hemorrhage just as in the U.S. The ECB remains very active in supporting a functioning credit market across Europe in order to avoid a major disaster.



Confidence in the Euroland economy is at its lowest point since September 2001, as rising energy and commodity prices have pushed inflation to 4%, which is at a 16 year high and twice the level the ECB targets. This has pushed up costs to businesses which should result in weaker margins and reduced earnings going forward. Euroland manufacturing data contracted severely in July and all indicators point to continued weakness over the near term. Retail sales have been weak in the second quarter as the consumer spending outlook is being choked off. With these issues in mind, we would not be surprised to the Euroland economy actually contract in the second quarter when the official number is released later in August.

With inflation well above targeted levels, the ECB responded by raising interest rates by 25 basis points to 4.25% in July. The ECB feels this remains the single biggest threat to the Euroland economy and remains committed to bringing this down. This is taking purchasing power away from the consumer, which then threatens economic growth. This could lead to inflationary pressure on wages if inflation stays at these levels over an extended period of time. Certainly, any weakness in energy and commodity prices would be a welcomed relief to the ECB.



During the second quarter, the employment situation remained quite good. Unemployment was recently reported at 7.3%, up just a bit from the first quarter's record low. Germany continues to be the shining star, as its rate remains at a 16 year low. The German economy continues to benefit from its disproportionately larger exposure to shipment of goods to the emerging economies relative to many other countries in Euroland. Obviously, this is helping the employment situation. So at this point, we see a Euroland economy that is clearly weakening with risks that lie to the downside. In fact, several countries in Euroland could fall into a recession over the next couple of quarters. Inflation measures should get a little better as we progress through the back half of 2008 as previous ECB actions take hold and if commodity costs decline from record levels. However, at this point, economic growth could slightly surpass what we will see in the U.S., even though neither will be at all impressive.



United Kingdom Update

After suffering through a terrible first quarter of 2008, results in the U.K. equity market during the second quarter were a bit better. During the second quarter, The U.K. equity market returned -.80% in USD terms. This was much better than the overall MSCI EAFE Index as a whole. Investor attitude toward U.K. equities was marginally better as the BOE remained active in the financial markets to avoid any widespread financial panic. As a result, investors took advantage of very attractive valuations in this market. However, we still remain very concerned about conditions in the U.K. financial system, with its very large exposure to the financial services sector as well as the current state of the housing and mortgage markets. But nonetheless, equity valuations remain attractive relative to past history provided the economy can avoid a recession.



During the second quarter of 2008, the U.K. economy expanded +.2% from the previous quarter, or +1.6% on a year over year basis, as this was the slowest pace in nearly seven years. Manufacturing and construction fell during the quarter as business services grew, but at a declining pace from the previous quarter. Higher food and energy costs are crimping the consumer, as retail sales have been sluggish this summer. The financial services sector remains under significant pressure from mounting mortgage related writedowns and other credit losses. Consumer prices continue to rise as inflation remains well above targeted levels. However, the BOE has refused to cut interest rates as fears of constricting growth could push the U.K. economy into a recession. However, interest rate cuts would be welcomed relief to the consumer at the expense of keeping inflation at an unacceptable high level. Perhaps falling energy and commodity prices could act as an inflation fighting force to help counter-balance this. This would certainly help consumer confidence going forward, as recent readings point toward a consumer who is very nervous. At this point, we should see very weak GDP readings in the third and fourth quarters, with the possible smell of recession in the air. Time will only tell if this comes to fruition.



The BOE opted to keep interest rates steady at 5.00% at its recent July meeting. Just as other central banks are doing, the BOE is walking a delicate line between interest rate cuts to spur economic growth and raising interest rates to fight inflation. On the employment front, the U.K. unemployment rate rose the most in several years and stood recently at 5.2%. Job cut announcements are becoming prevalent with each passing week in this region. This is further evidence of the slowdown that is taking place and another obstacle for the consumer. If the economy is to avoid a recession, employment will have to stabilize and give the consumer a measure of confidence going forward. As for the U.K. equity market, even though valuations look very attractive, corporate earnings growth is certainly decelerating and we have a very questionable economy in the back half of 2008. With this in mind, we feel it will take some positive developments in the economy and on the inflation front to see significantly stronger equity markets.



International Equity Activity/Strategy

As we look into the second half of 2008, we ask ourselves what has changed since our last update. Clearly, the global economy has slowed quite materially from just a few months ago. In fact, global growth could breach the 3% level in 2008, which could signal some level of recession if this happens. Nearly all regions of the world have seen projected growth in 2008 and 2009 slashed to some degree. Inflation fears have risen substantially lately, which puts the central banks in tough spots with regards to fighting inflation while trying to spur economic growth. The health of the global financial system is a major concern going forward. It seems like daily we are reading about another financial firm posting huge writedowns in their portfolio. Where this massive leverage unwinding ultimately stops is anybody's guess at this point. Our latest recessionary fears now encompass not only the U.S., but many markets in Europe as well. However, on a brighter note, crude oil prices have fallen to nearly \$120 a barrel and many commodity input costs are falling as well, which should help the pace of inflation at some point. Housing markets around the globe continue to be very weak, as we don't see much in the way of relief coming anytime soon. Consumer confidence has been very weak as rising living expenses coupled with a tougher employment outlook has kept households very

nervous. As far as the equity markets go, while valuations look very attractive from many measures, we see few catalysts that could move the markets significantly upward over the very near term, especially as we see corporate earnings growth coming under pressure. We feel many of these issues will shape the investing landscape over the next few months.

We have not made any incremental investments into or out of our international equity portfolio since our last update. We remain slightly underweight large-cap international equities and more moderately underweight emerging market equities relative to our peers. We will continue to evaluate structured note equity product, especially in the emerging markets area for investment opportunities if situations develop. Our total allocation to international equities is approximately 16.3% of total TRS and ERS assets and near 9.2% of the JRF total assets. Therefore, we expect to have a weighting to this asset class in the 15% to 18% range over the near term. *(Charts provided by Factset, Bloomberg, Bank of England, Goldman Sachs, University of Michigan, CBI, ECB, MHLW, ONS, Eurostat, MOF, MIC, Cabinet Office, BOJ)*

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
TRS CORE FUND	1,674,802,070	-8.09	-1.46	-11.21	-14.18	-12.55	5.24	8.09	2.84	Oct-94
TRS GOLDMAN SACHS GROUP INC	202,447,656	-6.42	-0.34	-6.93	-6.29	-4.28				Aug-06
TRS MORGAN STANLEY	133,316,280	-7.77	-1.73							Feb-08
TRS CREDIT SUISSE	162,024,000	-5.33	-5.80							Apr-08
TRS S&P 500 FUND	4,473,574,435	-8.41	-2.71	-11.89	-14.81	-13.06	4.51	7.68	3.00	Oct-94
TRS S&P MID CAP INDEX	847,812,096	-7.04	5.39	-3.98	-6.45	-7.25	7.40	12.58	9.92	Oct-94
TRS S&P SMALL CAP INDEX	393,298,012	-7.49	0.58	-6.79	-12.80	-14.42	4.10	11.39		Mar-01
TRS SMALLCAP ACTIVE FUND	75,998,998	-7.19	3.14	-3.38	-9.42	-15.10				Jun-06
TRS SPECIAL SITUATIONS	432,730,264	-9.04	1.12	-5.66	-11.26	-13.21	6.40	10.42	6.56	Oct-94
TRS TOTAL DOMESTIC EQUITY	8,396,003,811	-8.07	-1.20	-10.17	-13.16	-12.07	5.09	8.65	3.89	Oct-91
TRS CUSTOM DOMESTIC EQUITY INDEX		-8.17	-1.37	-10.50	-13.56	-12.37	4.84	8.57		
S&P 500		-8.43	-2.73	-11.91	-14.85	-13.12	4.41	7.59	2.88	
S&P 400 MIDCAP		-7.03	5.43	-3.90	-6.52	-7.34	7.45	12.61	9.84	
S&P 600 SMALL CAP		-7.56	0.40	-7.09	-13.08	-14.67	4.10	11.60	7.59	
<u>INTERNATIONAL EQUITY</u>										
TRS ALLEGRO INVESTMENT CORP SA	83,964,449	-1.89	6.00	6.16	8.75	13.33				Mar-07
TRS MORGAN STANLEY PLUS NOTES MSCI	72,140,240	-5.10	4.91	10.23	14.71	18.61				Mar-07
TRS MERRILL LYNCH INTERNATIONAL	36,540,800	-2.58	5.32	5.18	4.35					Aug-07
TRS INTERNATIONAL EQUITIES	2,992,821,524	-8.05	-1.93	-10.47	-11.85	-9.73	13.28	17.01	6.29	Nov-94
TRS TOTAL INTERNATIONAL EQUITY	3,185,467,012	-7.77	-1.52	-9.51	-10.72	-8.49	13.83	17.35	6.44	Oct-94
MSCI EAFE (NET)		-8.18	-2.25	-10.96	-12.52	-10.61	12.84	16.67	5.83	

TEACHERS RETIREMENT OF ALABAMA

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	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
TRS TOTAL GLOBAL EQUITY	11,581,470,823	-7.99	-1.28	-9.99	-12.50	-11.10	7.20	10.60	6.56	Oct-75
TRS CUSTOM GLOBAL EQUITY INDEX		-8.18	-1.62	-10.65	-13.28	-11.88	6.77			
<u>FIXED INCOME</u>										
TRS DOMESTIC FIXED INCOME	2,534,457,482	0.18	-1.21	0.87	3.74	6.89	4.85	5.67		Aug-99
TRS CUSTOM DOMESTIC FIXED INDEX		-0.18	-1.10	0.41	3.12	5.95	3.56	3.59		
TRS TOTAL FIXED (ex. Private Placements)	2,534,457,482	0.18	-1.21	0.87	3.74	6.89	4.86			Oct-03
TRS CUSTOM GLOBAL FIXED INDEX		-0.18	-1.10	0.41	3.12	5.95	3.55			
TRS PRIVATE PLACEMENTS	3,242,201,753	0.24	1.44	-0.60	1.20	3.49	12.19	11.27		Aug-99
TRS CASH ACCOUNT	121,572,599	0.20	0.64	1.54	2.79	4.42	4.83			Sep-03
TRS TOTAL FIXED INCOME	5,898,231,833	0.21	0.27	0.19	2.47	5.12	8.35	8.26	7.42	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
TRS PREFERRED STOCK	520,699,020	-0.14	3.56	0.28	0.01	-0.76	9.01			Sep-03
TRS REAL ESTATE	1,539,381,268	0.00	0.00	0.72	0.72	6.13	3.96			Oct-03
TRS INTERNALLY MANAGED	348,468,647	0.24	0.76	1.78	3.17	4.63	4.93			Oct-03
TRS OPTION COLLATERAL	4,094,785	0.00								Sep-03
TRS TOTAL ALTERNATIVES	2,412,643,720	0.01	0.83	0.88	1.17	4.62	4.82			Oct-03
TRS TOTAL F.I. PLUS ALTERNATIVES	8,310,875,554	0.15	0.44	0.39	2.04	4.91	7.27	7.10	6.84	Oct-93

TEACHERS RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

RATES OF RETURN - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
TRS TOTAL PLAN POLICY		-5.62	-1.19	-7.29	-8.91	-7.54	5.21			
TRS TOTAL PLAN	19,892,346,377	-4.75	-0.54	-5.96	-7.02	-5.10	7.19	8.81	6.64	Oct-88

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
ERS CORE FUND	901,544,110	-8.09	-1.46	-11.21	-14.00	-12.56	5.32	8.08	2.80	Oct-94
ERS GOLDMAN SACHS GROUP INC	90,954,744	-6.42	-0.34	-6.93	-6.30	-4.29				Aug-06
ERS MORGAN STANLEY	59,895,720	-7.77	-1.73							Feb-08
ERS CREDIT SUISSE	73,476,000	-5.33	-5.80							Apr-08
ERS S&P 500 FUND	2,032,407,120	-8.41	-2.71	-11.89	-14.82	-13.07	4.51	7.74	3.01	Oct-94
ERS S&P MID CAP INDEX	374,673,711	-7.04	5.39	-3.96	-6.39	-7.18	7.41	12.61	9.95	Oct-94
ERS S&P SMALL CAP INDEX	161,747,113	-7.49	0.58	-6.79	-12.80	-14.41	4.11	11.42		Mar-01
ERS SMALLCAP ACTIVE FUND	37,417,922	-7.19	3.12	-3.37	-9.40	-15.09				Jun-06
ERS SPECIAL SITUATIONS	232,571,801	-9.02	1.18	-5.58	-11.16	-13.12	6.59	10.56	6.55	Oct-94
ERS TOTAL DOMESTIC EQUITY	3,964,688,241	-8.09	-1.20	-10.19	-13.15	-12.10	5.11	8.68	3.91	Oct-93
<i>ERS CUSTOM DOMESTIC EQUITY INDEX</i>										
<i>S&P 500</i>		-8.43	-2.73	-11.91	-14.85	-13.12	4.41	7.59	2.88	
<i>S&P 400 MIDCAP</i>		-7.03	5.43	-3.90	-6.52	-7.34	7.45	12.61	9.84	
<i>S&P 600 SMALL CAP</i>		-7.56	0.40	-7.09	-13.08	-14.67	4.10	11.60	7.59	
<u>INTERNATIONAL EQUITY</u>										
ERS ALLEGRO INVESTMENT CORP SA	40,102,460	-1.89	6.00	6.16	8.75	13.33				Mar-07
ERS MORGAN STANLEY PLUS NOTES MSCI	34,455,040	-5.10	4.91	10.23	14.71	18.61				Mar-07
ERS MERRILL LYNCH INTERNATIONAL	19,697,775	-2.58	5.32	5.18	4.35					Aug-07
ERS INTERNATIONAL EQUITIES	1,315,668,433	-8.04	-1.93	-10.46	-11.92	-9.78	13.24	16.95	6.30	Nov-94
ERS TOTAL INTERNATIONAL EQUITY	1,409,923,708	-7.74	-1.47	-9.41	-10.67	-8.41	13.84	17.32	6.46	Oct-94
<i>MSCI EAFE (NET)</i>		-8.18	-2.25	-10.96	-12.52	-10.61	12.84	16.67	5.83	

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
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SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
ERS TOTAL GLOBAL EQUITY	5,374,611,949	-7.99	-1.27	-9.99	-12.50	-11.14	7.12	10.55	5.47	Oct-93
<i>ERS CUSTOM GLOBAL EQUITY INDEX</i>		-8.18	-1.61	-10.64	-13.29	-11.90	6.68			
<u>FIXED INCOME</u>										
ERS DOMESTIC FIXED INCOME	1,173,544,923	0.17	-1.25	0.89	3.80	6.97	4.80	5.69		Sep-99
<i>ERS CUSTOM DOMESTIC FIXED INDEX</i>		-0.18	-1.12	0.41	3.12	5.95	3.57	3.59		
ERS TOTAL FIXED (ex. Private Placements)	1,173,544,923	0.17	-1.25	0.89	3.80	6.97	4.82			Oct-03
<i>ERS CUSTOM GLOBAL FIXED INDEX</i>		-0.18	-1.12	0.41	3.12	5.95	3.56			
ERS PRIVATE PLACEMENTS	1,586,016,640	0.21	1.40	-0.73	1.04	3.32	12.25	11.19		Aug-99
ERS CASH ACCOUNT	65,740,079	0.21	0.64	1.53	2.78	4.40	4.92			Sep-03
ERS TOTAL FIXED INCOME	2,825,301,643	0.19	0.26	0.12	2.38	5.02	8.44	8.33	7.40	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
ERS PREFERRED STOCK	482,449,139	-0.07	3.85	0.52	0.37	-0.34	9.52			Sep-03
ERS REAL ESTATE	749,999,412	0.00	0.00	0.68	0.68	6.21	3.95			Oct-03
ERS INTERNALLY MANAGED	37,062,997	0.24	0.75	1.75	3.14	4.62	4.93			Oct-03
ERS TOTAL ALTERNATIVES	1,271,715,763	-0.01	1.41	0.77	1.03	4.01	5.49			Oct-03
ERS TOTAL F.I. PLUS ALTERNATIVES	4,097,017,406	0.13	0.63	0.30	1.84	4.58	7.44	7.21	6.84	Oct-93

EMPLOYEE RETIREMENT OF ALABAMA

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
ERS TOTAL PLAN POLICY		-5.58	-1.20	-7.28	-8.90	-7.54	5.03			
ERS TOTAL PLAN	9,471,629,355	-4.65	-0.42	-5.84	-6.87	-5.00	7.15	8.70	6.51	Oct-93

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>U.S. EQUITY</u>										
JRF S&P 500 FUND	115,104,271	-8.41	-2.71	-11.88	-14.80	-13.05	4.54	7.69	3.00	Oct-94
JRF S&P MID CAP INDEX	11,288,155	-7.07	5.36	-4.37	-6.81	-7.59	7.36	12.56	9.94	Oct-94
JRF S&P SMALL CAP INDEX	3,542,277	-7.49	0.59	-6.78	-12.82	-14.44	4.12	11.72		Mar-01
JRF TOTAL DOMESTIC EQUITY	129,934,703	-8.27	-1.97	-11.14	-14.11	-12.64	4.79	8.21	3.58	Oct-93
<i>JRS CUSTOM DOMESTIC EQUITY INDEX</i>		-8.29	-1.98	-11.14	-14.13	-12.69	4.66	8.10		
<i>S&P 500</i>		-8.43	-2.73	-11.91	-14.85	-13.12	4.41	7.59	2.88	
<i>S&P 400 MIDCAP</i>		-7.03	5.43	-3.90	-6.52	-7.34	7.45	12.61	9.84	
<i>S&P 600 SMALL CAP</i>		-7.56	0.40	-7.09	-13.08	-14.67	4.10	11.60	7.59	
<u>INTERNATIONAL EQUITY</u>										
JRF ALLEGRO INVESTMENT CORP SA	1,253,176	-1.89	6.00	6.16	8.75	13.33				Mar-07
JRF MORGAN STANLEY PLUS NOTES MSCI	1,076,720	-5.10	4.91	10.23	14.71	18.61				Mar-07
JRF MERRILL LYNCH INTERNATIONAL	856,425	-2.58	5.32	5.18	4.35					Aug-07
JRF INTERNATIONAL EQUITIES	18,230,018	-8.10	-1.95	-10.45	-11.84	-9.85				Nov-06
JRF TOTAL INTERNATIONAL EQUITY	21,416,340	-7.40	-0.92	-8.13	-9.11	-6.80				Nov-06
<i>MSCI EAFE (NET)</i>		-8.18	-2.25	-10.96	-12.52	-10.61	12.84	16.67	5.83	
JRF TOTAL GLOBAL EQUITY	151,351,043	-8.15	-1.82	-10.72	-13.42	-11.84	5.36	8.56	3.75	Oct-93
<u>DOMESTIC FIXED INCOME</u>										
JRF DOMESTIC FIXED INCOME	53,353,405	0.09	-1.57	0.29	3.04	6.14	4.72	5.61	5.14	Oct-93
<i>JRF CUSTOM DOMESTIC FIXED INDEX</i>		-0.17	-1.12	0.41	3.16	6.08	3.60	3.58		

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

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JRF PRIVATE PLACEMENTS	8,306,163	-0.84	0.30	-5.15	-4.87	-0.62	16.48	12.00		Oct-01
JRF CASH ACCOUNT	4,248,641	0.20	0.64	1.55	2.80	4.18	4.60			Sep-03
JRF TOTAL FIXED INCOME	65,908,209	-0.01	-1.14	-0.36	1.93	5.04	6.50	6.65	5.83	Oct-93
<u>ALTERNATIVE INVESTMENTS</u>										
JRF REAL ESTATE	2,539,673	0.00	0.00	1.42	1.42	6.14	4.34			Oct-03
JRS INTERNALLY MANAGED CASH	20,027,589	0.24	0.77	1.84	3.26	4.72	4.87			Oct-03
JRF TOTAL ALTERNATIVES	22,567,262	0.21	0.68	1.79	3.02	4.87	4.77			Oct-03
JRF TOTAL F.I. PLUS ALTERNATIVES	88,475,471	0.04	-0.67	0.22	2.27	5.05	6.28	6.47	5.75	Oct-93

JUDICIAL RETIREMENT FUND

SUMMARY OF PERFORMANCE

RATES OF RETURN

PERIODS ENDING June 30, 2008



STATE STREET.
For Everything You Invest In™

SUMMARY OF PERFORMANCE - GROSS OF FEE

	MKT VALUE	1 Month	3 Month	CYTD	FYTD	1 Year	3 Years	5 Years	10 YEARS	Fund Inception date
<u>TOTAL PLAN</u>										
JRF TOTAL PLAN	239,826,514	-5.26	-1.42	-6.90	-8.10	-6.13	5.74	7.66	5.83	Oct-93
<i>JRF TOTAL PLAN POLICY</i>		-5.89	-1.66	-7.71	-9.14	-7.40	4.31			